

GAO

June 1986

# FINANCIAL AUDIT

## Export-Import Bank's Financial Statements for 1985 and 1984



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Comptroller General  
of the United States

B-197710

June 25, 1986

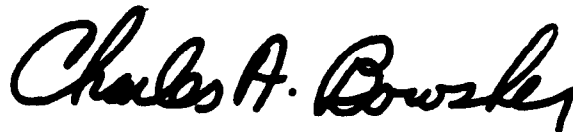
To the President of the Senate and the  
Speaker of the House of Representatives

This report transmits our adverse opinion on the financial statements of the Export-Import Bank of the United States (Eximbank) for the years ended September 30, 1985 and 1984, and our reports on Eximbank's system of internal accounting controls and compliance with laws and regulations. Eximbank is a wholly owned government corporation whose purpose is to aid the U.S. exporting community in financing and facilitating the export of goods and services. The Comptroller General is required to audit the financial transactions of wholly owned government corporations under 31 U.S.C. 9105, and we conducted our examinations in accordance with generally accepted government auditing standards.

We believe that Eximbank's financial statements continue to be misleading in that they do not reflect the material losses that have been incurred or are likely to result from the uncollectibility of a portion of its foreign loans as well as from claim payments that arise from defaults under its insurance and guarantee programs. We identified about \$4.9 billion of problem debt (delinquent or rescheduled loans, and claim payments resulting from defaults) in Eximbank's loan portfolio and estimated recoveries of claim payments. We estimate that the losses range from \$1.1 to \$1.9 billion.

We found no material internal control weaknesses or violations of laws and regulations that could have materially affected Eximbank's financial statements.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Board of Directors of Eximbank.



Charles A. Bowsher  
Comptroller General  
of the United States

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Comptroller General  
of the United States

B-197710

To the Board of Directors  
Export-Import Bank of the United States

We have examined the statements of financial condition of the Export-Import Bank of the United States (Eximbank) as of September 30, 1985 and 1984, the related statements of income (loss) and reserve for contingencies and defaults, and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances

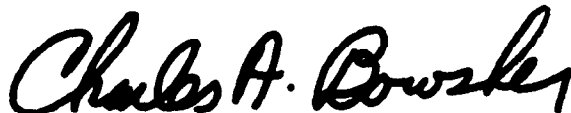
Eximbank has reported net losses in its 1985 and 1984 financial statements of \$344 and \$343 million, respectively. We believe these losses are understated because Eximbank's financial statements do not provide an allowance for estimated losses that have been or are likely to be sustained due to the uncollectibility of a significant portion of its problem debt. As of September 30, 1985, Eximbank's assets included about \$4.9 billion of problem debt owed by foreign governments: loans made by Eximbank that are delinquent or have been rescheduled and claim payments arising from defaults under Eximbank's insurance and guarantee programs which have been recorded as fully recoverable. Accordingly, loans receivable is overstated by the amount of problem debt that is not likely to be collected, and estimated recoveries on insurance and guarantee claims is also overstated by the amount of claim payments that will not be fully recovered.

To determine potential losses from the problem debt, we analyzed Eximbank's loan portfolio and its estimated recoveries from claim payments that Eximbank considered fully recoverable as of September 30, 1985. The lower boundary of the estimate (\$1.1 billion) includes allowances for those countries whose entire credit balance would be defined as problem debt and where no improvement in the status of that debt has occurred since our September 30, 1984, analysis that we did for last year's report. The upper boundary of our estimate (\$1.9 billion) includes an additional amount for other countries that are experiencing debt repayment problems as evidenced by a significant amount of problem debt in their total credits outstanding. The lower and upper boundaries represent 22 percent and 39 percent, respectively, of the total \$4.9 billion problem debt. We estimate that losses in the range of

\$1.1 to \$1.9 billion should be recorded, decreasing total assets and accumulated income since inception by that amount. This would result in accumulated results of operations of between zero and an \$800 million deficit as of September 30, 1985, instead of the accumulated income of \$1.1 billion (Reserve for Contingencies and Defaults) as shown in the accompanying financial statements

As discussed in notes 1, 4, and 11 to the financial statements, Eximbank has changed from a cash to an accrual basis of accounting for its insurance and guarantee programs effective September 30, 1985. We concur with this change which we previously recommended in our October 22, 1985, letter to the Chairman of Eximbank. Because it was not practicable to restate prior years, Eximbank's fiscal year 1985 financial statements include a \$33.4 million cumulative adjustment to income for conversion to an accrual basis for claim losses.

In our opinion, because of the materiality of the effect of not establishing an allowance for loss to reflect the full cost of losses on its direct loan and insurance and guarantee programs, the accompanying financial statements do not present fairly the financial position of Eximbank as of September 30, 1985 and 1984, or the results of its operations and changes in its financial position for the years then ended in conformity with generally accepted accounting principles.



Charles A. Bowsher  
Comptroller General  
of the United States

May 23, 1986

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# Report on Internal Accounting Controls

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We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1985 and 1984, and have issued our opinion thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of the system of internal accounting controls for the year ended September 30, 1985. (Our report on the study and evaluation of the system of internal accounting controls for the year ended September 30, 1984, is presented in GAO/AFMD-85-61, May 29, 1985.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditures cycle,
- financial reporting cycle,
- insurance claims expense cycle,
- insurance premium revenue cycle,
- loan cycle, and
- treasury cycle.

Our study and evaluation was generally limited to a preliminary review of the system of internal accounting controls. The primary objectives of our study and evaluation were to obtain an understanding of the control environment and the flow of transactions through the accounting system, and to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on Eximbank's financial statements. Based on our preliminary review, we determined it was more efficient to expand substantive audit tests to verify account balances than to continue with a complete evaluation of internal accounting controls. However, we did evaluate the reliability of the controls over the timely posting of journal entries in the financial reporting cycle, the proper posting of loan disbursements and repayments in the loan cycle, and the proper processing of wage and salary expenses in the expenditures cycle. Therefore, with the exception of those functions noted, our study and evaluation of internal accounting controls did not extend beyond the preliminary review phase.

The management of Eximbank is responsible for establishing and maintaining a system of internal accounting controls. In fulfilling this responsibility, management is required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that



(1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation of internal accounting controls was made for the purpose described in the first paragraph. It was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole or on any of the categories of controls identified above, and it would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of Eximbank taken as a whole or on any of the categories of controls we identified. However, our study and evaluation of internal accounting controls disclosed no condition that we believed to be a material weakness. During the course of our examination, we did identify a number of opportunities for improving internal controls and procedures. We will communicate our findings to Eximbank through a separate management letter.

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# Report on Compliance With Laws and Regulations

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We have examined the financial statements of the Export-Import Bank of the United States for the years ended September 30, 1985 and 1984, and have issued our opinion thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended September 30, 1985. (Our report on compliance with laws and regulations for the year ended September 30, 1984, is presented in GAO/AFMD-85-61, May 29, 1985.)

In our opinion, Eximbank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected its financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that Eximbank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

# Financial Statements

## Comparative Statement of Financial Condition

	September 30, 1985	September 30, 1984
<b>ASSETS</b>		
Cash in U.S. Treasury and Commercial Banks	\$ 23,100,000	\$ 5,000,000
Investments in U.S. Securities	72,800,000	27,100,000
Loans Receivable (Notes 2,3,4, and 6):		
Current Loans	13,202,200,000	14,796,900,000
Delinquent Loans	2,673,400,000	2,706,900,000
	<u>15,875,600,000</u>	<u>17,503,800,000</u>
Excess of Estimated Claim Recoveries over Estimated Future Claim Payments (Notes 4 and 11)	1,028,600,000	-
Accrued Interest and Fees Receivable (Notes 2 and 11):		
Current Interest and Fees	352,200,000	434,700,000
Delinquent Interest	305,300,000	278,100,000
	<u>657,500,000</u>	<u>712,800,000</u>
Other Assets (Notes 5 and 7):		
Reposessed Equipment	-0-	9,400,000
Due from Private Export Funding Corporation	36,500,000	107,000,000
Due from Foreign Credit Insurance Association	200,000	1,600,000
Other Receivables and Miscellaneous Assets	1,100,000	46,000,000
	<u>37,800,000</u>	<u>164,000,000</u>
	<u>\$17,695,400,000</u>	<u>\$18,412,700,000</u>
<b>LIABILITIES, CAPITAL AND RESERVE</b>		
Borrowings (Note 8):		
Notes Payable to Federal Financing Bank	\$15,409,000,000	\$15,689,800,000
Note Payable to Private Export Funding Corporation	-0-	15,300,000
Certificates of Beneficial Interest Payable	-0-	6,100,000
Notes Payable to U.S. Institutions	8,700,000	12,400,000
	<u>15,417,700,000</u>	<u>15,723,600,000</u>
Other Liabilities:		
Accrued Interest Payable	132,800,000	129,800,000
Advances from Private Export Funding Corporation	-0-	80,000,000
Collections Held Pending Disposition	24,900,000	8,900,000
Deferred Fee Income	9,100,000	9,000,000
Other Credits	5,300,000	11,600,000
	<u>172,100,000</u>	<u>239,300,000</u>
Total Liabilities	15,589,800,000	15,962,900,000
Capital Stock Held by U.S. Treasury	1,000,000,000	1,000,000,000
Reserve for Contingencies and Defaults (Note 7)	1,105,600,000	1,449,800,000
	<u>\$17,695,400,000</u>	<u>\$18,412,700,000</u>

The accompanying notes are an integral part of these financial statements.

**Financial Statements**

**Comparative Statement of Income (Loss) and Reserve for Contingencies and Defaults**

	Fiscal Year Ended September 30, 1985	Fiscal Year Ended September 30, 1984
<b>REVENUES</b>		
Interest on Loans	\$ 1,478,000,000	\$ 1,457,800,000
Commitment Fees	16,400,000	23,000,000
Application Fees	6,500,000	23,000,000
Insurance Premiums and Guarantee Fees	38,500,000	33,200,000
Other Income	<u>24,300,000</u>	<u>19,900,000</u>
Total Revenues	<u>1,563,700,000</u>	<u>1,556,900,000</u>
<b>EXPENSES</b>		
Interest on U.S. Government Borrowings	1,826,500,000	1,740,800,000
Interest on Certificates of Beneficial Interest Borrowings	100,000	1,000,000
Interest on U.S. Institutional Borrowings	600,000	800,000
Interest on Private Export Funding Corporation Borrowings	1,100,000	3,000,000
Administrative Expenses	18,500,000	16,800,000
Claims Paid, net of Recoveries (Note 7)	82,900,000	118,800,000
Other Expenses	<u>11,600,000</u>	<u>18,300,000</u>
Total Expenses	<u>1,941,300,000</u>	<u>1,899,500,000</u>
Net Loss Before Adjustment	(377,600,000)	(342,600,000)
Adjustment for Conversion to Accrual Basis for Claim Losses (Note 11)	<u>33,400,000</u>	<u>-</u>
Net Loss	\$ (344,200,000)	\$ (342,600,000)
<b>RESERVE FOR CONTINGENCIES AND DEFAULTS</b>		
Beginning of Fiscal Year	<u>\$ 1,449,800,000</u>	<u>\$ 1,792,400,000</u>
End of Fiscal Year	<u>\$ 1,105,600,000</u>	<u>\$ 1,449,800,000</u>

The accompanying notes are an integral part of these financial statements.

## Comparative Statement of Changes in Financial Position

	Fiscal Year Ended September 30, 1985	Fiscal Year Ended September 30, 1984
<b>FUNDS PROVIDED</b>		
Net Loss	\$ (344,200,000)	\$ (342,600,000)
Excess of Estimated Recoveries over Estimated Future Claim Payments (Note 11)	(44,400,000)	-
Borrowings from the Federal Financing Bank (Note 8)	1,382,000,000	2,584,000,000
Borrowings from U.S. Treasury	47,400,000	890,000,000
Repayments of Loans Receivable	2,250,200,000	1,727,100,000
Repayments of Loans Purchased Pursuant to Guarantee and Insurance Agreements (Note 4)	37,100,000	13,600,000
Loans Receivable Written Off, Net of Recoveries	3,900,000	(20,500,000)
Sales of Certificates of Beneficial Interest	-0-	2,600,000
Net Change in Accrued Interest and Fees Receivable	55,300,000	(129,600,000)
Net Change in Accrued Interest Payable	3,000,000	(5,100,000)
Sale of Repossessed Equipment (Note 7)	9,400,000	90,500,000
Other - Net	56,200,000	(30,100,000)
Total Funds Provided	<u>3,455,900,000</u>	<u>4,779,900,000</u>
<b>FUNDS APPLIED</b>		
Loan Disbursements	1,382,900,000	1,967,700,000
Loans Purchased Pursuant to Guarantee and Insurance Agreements (Note 4)	264,400,000	373,800,000
Net Addition to Investments in U.S. Securities	45,700,000	(84,400,000)
Repayments of Federal Financing Bank Borrowings	1,662,800,000	1,570,000,000
Repayments of U.S. Treasury Borrowings	47,400,000	890,000,000
Repayments of Private Export Funding Corporation Borrowing	15,300,000	15,300,000
Repayments of U.S. Institutional Borrowings	3,700,000	3,100,000
Repayments of Certificates of Beneficial Interest	6,100,000	14,900,000
Loan Disbursements for Private Export Funding Corporation - Net	9,500,000	29,400,000
Total Funds Applied	<u>3,437,800,000</u>	<u>4,779,800,000</u>
<b>NET INCREASE (DECREASE) IN FUNDS DURING THE PERIOD</b>		
Cash - Net	<u>\$ 18,100,000</u>	<u>\$ 100,000</u>

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

Note 1: Enabling Legislation and Basic Accounting Principles

Eximbank is an independent corporate agency of the United States, which was first organized as a District of Columbia banking corporation in 1934. The primary legislation governing its operations consists of the Export-Import Bank Act of 1945, as amended through November 30, 1983, and the Government Corporation Control Act.

The commitment authority of Eximbank under the Export-Import Bank Act to lend, guarantee, and insure is limited to \$40 billion outstanding at any one time. Loans are charged against the \$40 billion limitation at 100 percent of their authorized amount. Guarantees and insurance are charged against the \$40 billion limitation at not less than 25 percent of Eximbank's contractual liability, with the proviso that the aggregate amount of guarantees and insurance so charged may not exceed \$25 billion outstanding at any one time. Thus, Eximbank's contractual commitments outstanding at any one time could reach \$58.75 billion, consisting of \$25 billion of guarantees and insurance outstanding, resulting in a \$6.25 billion charge against the \$40 billion limitation, and \$33.75 billion (additional commitments) charged at 100 percent against the limitation.

At September 30, 1985, the committed and uncommitted authority to lend, guarantee, and insure and the Bank's commitments and contingent liabilities were:

(\$ Millions)

	<u>Commitments and Contingent Liabilities</u>	<u>Statutory Authority Charges</u>
Total Statutory Authority	\$ -	\$40,000.0
Outstanding Loans	15,875.6	15,875.6
Undisbursed Loans	3,435.8	3,435.8
Estimated Recoveries on Disbursed Claims (Note 11)	1,176.5	1,176.5
Guarantees	6,394.9	1,598.7
Insurance	<u>8,119.1</u>	<u>2,029.8</u>
Committed Balance	<u>-</u>	<u>24,116.4</u>
Uncommitted Balance	<u>\$ -</u>	<u>\$15,883.6</u>
Total	\$35,001.9	\$ -

Limitations on the amount of loans, and guarantees and insurance which may be committed by the Bank are established each year by legislation enacted by Congress. For FY 1984, the limitations were \$3,865.0 million for loans and \$10,000.0 million for guarantees and insurance. In that year the Bank authorized \$1,465.0 million in loans and \$7,150.8 million in guarantees and

insurance. For FY 1985, the Bank was limited to \$3,865.0 million of new loan authorizations and \$10,000.0 million of new guarantee and insurance commitments. During the year, the Bank authorized \$659.4 million of loans and \$7,849.6 million of guarantees and insurance. For FY 1986 the Bank's limitations are \$1,062.3 million for loans and \$11,484.0 million for guarantees and insurance.

Since its inception, the Bank's Charter has been periodically renewed by Congress. The Charter currently expires on September 30, 1986. The Bank expects that Congress again will renew the Charter prior to its expiration date.

Eximbank's accounting records are maintained on an accrual basis with the exception of write-offs of loans, and through FY 1985, for the payment of claims on guarantees and insurance policies. Beginning with FY 1986, claims on guarantees and insurance policies will be accounted for on an accrual basis. All adjustments related thereto have been made as of September 30, 1985 to the FY 1985 financial statements to reflect the change to an accrual basis.

Loans are written off and charged to income when Eximbank determines that the outstanding principal balance is uncollectable. Interest on delinquent loans receivable is accrued until such time as Eximbank determines on a case-by-case basis that a particular delinquent loan should be non-accruing. Claims, except for those treated as purchases of assets (see Note 4), have been charged to income in the year paid. Later recoveries of amounts written off or of amounts which have been charged to income when paid have been treated as income in the year received. Until the conversion of claims to an accrual basis, Eximbank treated the payment of claims as a purchase of an asset when the prospect of repayment justified such treatment.

#### Note 2: Delinquent Loans

Loans with any installments of principal or interest past due 90 days or more are classified as delinquent on the Statement of Financial Condition. The outstanding principal amount of all delinquent loans is summarized on a comparative basis (see table below). The delinquent interest figure shown on the table represents interest to the due date of the delinquent installments. The difference between the \$270.1 million for FY 1985 and \$249.0 million for FY 1984 and the amount of delinquent interest shown on the Statement of Financial Condition represent accrued interest between the respective due dates of the credits and the financial statement dates and loans which are non-accruing for financial statement purposes.

The delinquent loans to China were made in 1946 to the then recognized government of China. The delinquent loans to Cuba were made between 1951 and 1958, when a prior government existed.

Financial Statements

Country	Total Outstanding Principal as of September 30, 1985	Delinquent Installments September 30, 1985 (\$ Thousands)			Delinquent Installments September 30, 1984 (\$ Thousands)		
		Principal	Interest	Total	Principal	Interest	Total
Antigua	\$ 750.0	\$ 750.0	\$ 1,114.0	\$ 1,864.0	\$ 750.0	\$ 1,086.9	\$ 1,836.9
Argentina	270,320.2	71,606.0	36,745.1	108,351.1	35,760.4	17,119.1	52,879.5
Bolivia	29,977.4	11,416.2	788.7	12,204.9	5,579.7	2,306.7	7,886.4
Brazil	717,879.9	54,524.6	34,757.6	89,282.2	145,177.2	61,922.6	207,099.8
Cameroon	43,016.3	3,300.9	1,893.1	5,194.0	1,024.9	884.6	1,909.5
China	26,386.0	26,386.0	28,899.5*	55,285.5	26,386.0	28,171.6*	54,557.6
Costa Rica	16,933.6	3,528.8	1,976.8	5,505.6	1,496.0	1,510.9	3,006.9
Cuba	36,266.6	36,266.6	50,719.4	86,986.0	36,266.6	48,893.2	85,159.8
Dominican Rep.	52,324.9	9,417.6	9,073.6	18,491.2	7,267.4	5,940.8	13,208.2
Ecuador	4,925.0	2,599.1	379.2	2,978.3	161.8	9.2	171.0
Guyana	2,500.0	1,500.0	774.5	2,274.5	1,000.0	555.8	1,555.8
Ivory Coast	79,177.6	3,882.9	2,820.8	6,703.7	4,568.8	1,718.3	6,287.1
Jamaica	19,238.8	1,844.9	771.3	2,616.2	10,345.5	2,922.3	13,267.8
Mexico	67,130.4	10,759.9	6,959.6	17,719.5	11,515.7	3,895.4	15,411.1
Morocco	66,307.3	5,121.1	4,572.9	9,694.0	-0-	816.8	816.8
Mozambique	16,300.3	6,418.7	2,756.3	9,175.0	2,922.5	1,277.1	4,199.6
Nicaragua	12,185.7	8,099.6	4,845.3	12,944.9	13,645.6	5,138.1	18,783.7
Peru	47,709.5	7,834.1	6,446.6	14,280.7	434.2	765.9	1,200.1
Poland	241,809.4	166,407.0	59,781.7	226,188.7	119,546.6	48,557.5	168,104.1
Sudan	21,516.7	394.9	867.3	1,262.2	1,400.0	949.4	2,349.4
Tanzania	13,723.6	3,012.8	1,979.9	4,992.7	260.8	801.1	1,061.9
Venezuela	38,239.1	12,140.4	2,049.6	14,190.0	7,963.8	1,681.9	9,645.7
Yugoslavia	460,711.2	36,037.7	3,811.6	39,849.3	67,217.7	9,618.6	76,836.3
Zaire	181,453.3	1,700.0	3,928.9	5,628.9	-0-	-0-	-0-
Zambia	27,947.4	2,385.1	975.2	3,360.3	3,383.9	470.1	3,854.0
Other	178,633.4	2,068.3	426.8	2,495.1	10,184.7	2,008.8	12,193.5
Total	\$2,673,363.6	\$489,403.2	\$270,115.3	\$759,518.5	\$514,259.8	\$249,022.7	\$763,282.5

The countries listed above are not necessarily the obligor of the delinquent loans. Some of the loans are to private parties in those countries.

\*Eximbank ceased to accrue interest on certain loans to China in 1960. At that time, accrued interest amounted to \$9,325,442.59.



Note 3: Rescheduled Loans

From time to time Eximbank must extend the repayment date of some or all principal installments of a loan to a new schedule because the obligor or country has encountered temporary financial difficulty and the Directors of Eximbank have determined that providing relief in this manner will aid collectability and enable the obligor ultimately to service the debt.

The rescheduled loan activity during FY 1985 and FY 1984 was:

	(\$ Millions)	
	<u>FY 1985</u>	<u>FY 1984</u>
Debt Rescheduled:		
Principal Installments	\$ 358.5	\$ 266.8
Interest Installments	<u>126.9</u>	<u>116.6</u>
Total	<u>\$ 485.4</u>	<u>\$ 383.4</u>
End of year loans receivable on loans that have had one or more installments rescheduled	<u>\$3,052.4</u>	<u>\$1,545.9</u>

The total amount of rescheduled loans outstanding as of September 30, 1985 includes principal of \$1,731.4 million and interest of \$179.4 million which have one or more installments past due 90 days or more. These loans are included in the delinquent classification of the Statement of Financial Condition.

Interest income included in net income for FY 1985 on the total rescheduled debt is \$276.2 million.

The amount of undisbursed commitments to debtors having previously rescheduled debt outstanding as of September 30, 1985 is \$17.4 million.

Because of the change to accrual accounting for claim losses, amounts which were previously recorded as asset purchases and rescheduled will no longer be recorded as rescheduled loans and are not included in those figures for FY 1985. The FY 1984 rescheduling figures of \$383.4 million and \$1,545.9 million include \$101.3 million and \$246.4 million respectively of such reschedulings.

Note 4: Loans Purchased Pursuant to Eximbank Guarantee Agreements

Claim payments under Eximbank's medium- and short-term guarantee and insurance programs have been treated as purchases of assets and recorded as loans receivable when, in the opinion of the Board, the prospects of repayment and other factors, including materiality and country-wide debt consolidation considerations, justify such treatment.

Beginning in FY 1986, in accordance with the change to accrual accounting for claims (see Note 11), claim payments will no longer be recorded as asset

purchases, but expected recoveries will be estimated and reflected as an asset on the Bank's records.

Purchased loan activity during the period is summarized as follows:

	(\$ Millions)	
	<u>FY 1985</u>	<u>FY 1984</u>
Purchased loans outstanding beginning of period	\$756.9	\$396.7
Plus: Loans purchased and claim payments recorded as loan purchases (see table below)	264.4	373.8
Less: Repayments	<u>(37.1)</u>	<u>(13.6)</u>
Purchased and anticipated purchased loans outstanding end of period	<u>\$984.2</u>	<u>\$756.9</u>

At September 30, 1985, the cumulative amount of claim payments treated as purchases totaled \$1,075.3 million and cumulative repayments totaled \$91.1 million. The net total of \$984.2 million has been removed from loans receivable at September 30, 1985, and is included on the Statement of Financial Condition in Excess of Estimated Claim Recoveries over Estimated Future Claim Payments.

Loan purchases for FY 1985 and FY 1984 are summarized in the table below.  
(\$ Thousands)

Country	FY 1985 Loan Purchases	FY 1984 Loan Purchases
Argentina	\$ 20,941.0	\$ 5,773.2
Brazil	69,537.6	72,871.9
Costa Rica	1,141.4	(1,374.3)
Dominican Republic	21,196.0	-0-
Ecuador	5,560.1	1,464.8
Guinea	1,610.3	123.0
Ivory Coast	3,557.3	2,956.3
Jamaica	7,845.4	3,209.4
Madagascar	6,239.6	3,265.7
Mexico	53,329.4	187,154.0
Morocco	8,649.6	9,083.9
Mozambique	1,448.8	-0-
Peru	1,145.1	2,556.0
Philippines	18,223.0	-0-
Sudan	527.8	1,573.1
Turkey	-0-	(51.1)
Yugoslavia	6,156.5	3.6
Zaire	28,582.0	76,318.3
Zambia	8,674.8	8,825.9
Total	<u>\$264,365.7</u>	<u>\$373,753.7</u>

#### Note 5: Related Parties

##### Foreign Credit Insurance Association

The Foreign Credit Insurance Association (FCIA) is an association of primary insurance companies. Eximbank issues export credit insurance in cooperation with FCIA. Under a contractual agreement, Eximbank reinsures all of the commercial risks and in addition, insures all political risks, covers any operation expenses in excess of premiums, and has a majority on the FCIA Board of Directors. Under the contractual agreement with Eximbank, FCIA markets and administers the insurance policies, including billing and collecting premiums, processing and paying claims, and pursuing recovery on claims.

FCIA's FY 1985 Statement of Income (Loss) includes \$13.2 million commercial premium revenue, \$12.0 million expenses, netting to an underwriting income of \$1.2 million. This amount plus the investment income of \$162 thousand gives a total income of \$1.4 million, which was ceded to Eximbank. Total income (loss) ceded to the Bank is settled through the due from FCIA account shown on the "Statement of Financial Condition." As of September 30, 1985, \$170 thousand of the ceded income was due to Eximbank. Additionally, FCIA, in servicing political risk only policies on Eximbank's behalf, earned premiums of \$10.0 million. These premiums are included in the Eximbank's insurance premium amount shown on the Comparative Statement of Income (Loss), as they are earned.

FCIA's direct losses and loss adjustment expenses paid in FY 1985 were \$113.4 million, and recoveries net of expenses were \$24.9 million. This resulted in

total net claim payments of \$88.5 million. This total, plus legal fees paid, less recoveries received directly by Eximbank, loans purchased, and other adjustments net to \$33.6 million which is included in Eximbank's net claim payments during FY 1985.

In FY 1985 Eximbank charged \$995 thousand against net income representing amounts distributed to FCIA's member companies as part of the buyout arrangements. These amounts are included in the net losses for insurance shown in Note 7.

Private Export Funding Corporation

The Private Export Funding Corporation (PEFCO) has agreements with Eximbank which, for specified fees, provide that Eximbank will:

1. Guarantee the due and punctual payment of principal and interest on all export loans made by PEFCO;
2. Guarantee the due and punctual payment of interest on PEFCO debt obligations when requested by PEFCO;
3. Hold a \$50,000,000 short-term revolving credit line at the disposal of PEFCO; and
4. Protect PEFCO against movements in interest rates adversely affecting the spread between PEFCO's fixed rate loan commitments to borrowers and the eventual cost of funding such commitments, except as this protection may be waived by PEFCO from time to time. In this connection, PEFCO has waived such protection with respect to all fixed rate loan commitments heretofore made and which may be made through September 30, 1986.

Under its agreements with PEFCO, Eximbank retains a broad measure of supervision over PEFCO's major financial management decisions. In addition to approving the terms of individual loan commitments, Eximbank approval of the terms of PEFCO's debt issues, other than short- and medium-term notes, is required. Surplus funds may be invested only in approved types of assets. Eximbank is entitled to representation at all meetings of PEFCO's Board of Directors and Advisory Board. PEFCO furnishes Eximbank with full information as to budgets, financial condition, and operating results.

PEFCO's export loans outstanding which were guaranteed by Eximbank at September 30, 1985 were \$1,431 million. In addition, related undisbursed commitments were \$421 million. These amounts are included in Eximbank's contingent liability for guarantees shown in Note 1.

Included in the above guaranteed commitment total is the balance remaining under 16 export credits subject to a special agreement between Eximbank and PEFCO. In FY 1980, Eximbank and PEFCO agreed to share in providing a total of \$1,350.0 million of U.S. export financing at current fixed rates of interest quoted by Eximbank to foreign borrowers. Eximbank's share of the total was \$251 million and PEFCO's share was \$1,099.0 million. Under the arrangement, Eximbank reduced or increased the return on its credits in order to meet any

shortfall or to receive any excess between the borrowers' interest payments and PEFCO's interest charges. During FY 1985, Eximbank reduced the interest income on its portion of the credits by \$8.5 million.

During FY 1985, Eximbank made disbursements totaling \$46.5 million in connection with credits under the arrangement. PEFCO's share of this amount is \$36.9 million and Eximbank's is \$9.6 million. As of September 30, 1985 PEFCO's \$36.9 million share of the disbursements remained outstanding, which will be reimbursed by PEFCO. PEFCO does not pay any interest to Eximbank on this amount; Eximbank retains all interest accrued on these loans prior to PEFCO's reimbursements.

In October 1984, PEFCO reimbursed Eximbank \$106 million for their share of the disbursements which remained outstanding at September 30, 1984. The advance of \$80 million outstanding on September 30, 1984, was repaid in October 1984. In accordance with the arrangement, the interest rate charged by PEFCO on their share of the disbursements was determined by their borrowing cost at the time of borrowing and for this amount was 13.4 percent. The weighted average interest rate to the foreign borrowers on the amount of the disbursements is 9.5 percent. The weighted average cost of Eximbank's borrowings from the FFB during the quarter at the time of the reimbursement was 11.469 percent.

Note 6: Maturity Schedule of Outstanding Loans Receivable

As of September 30, 1985 about 73.1 percent of the \$15,875.6 million outstanding loans receivable balance is projected to be due over the next five years and the remaining 26.9 percent is estimated to be due thereafter, as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>	<u>Percent of Total</u>
1986	\$ 2,322.8	14.6
1987	2,295.6	14.5
1988	2,063.1	13.0
1989	1,892.1	11.9
1990	3,038.7	19.1
	<u>11,612.3</u>	<u>73.1</u>
1991-2006	<u>4,263.3</u>	<u>26.9</u>
	<u>\$15,875.6</u>	<u>100.0%</u>

In addition to the \$15,875.6 million of outstanding loans, there are undisbursed loans totaling \$3,435.8 million, most of which are expected to be disbursed over the next 3-5 years.

Note 7: Losses, Claims, and Reserve for Contingencies and Defaults

The risk to Eximbank from potential losses is not susceptible to accurate measurements because of the unpredictable nature of future worldwide economic and political conditions. Eximbank's entire Reserve is available to cover such

losses and contingencies. Eximbank's Charter provides for retention of net earnings of the Bank prior to the payment of dividends, to provide for a reasonable provision for possible losses. Eximbank has a Reserve for Contingencies and Defaults of \$1,105.6 million which is 7.0 percent of outstanding loans and 3.2 percent of worldwide commitments. This Reserve, coupled with Eximbank's \$1.0 billion Capital, amounts to 13.3 percent of outstanding loans and 6.0 percent of worldwide commitments.

Losses, claim payments and recoveries for FY 1985 and FY 1984 are:

(\$ Thousands)

	<u>FY 1985</u>	<u>FY 1984</u>
Loans written off	\$ 5,281.7	\$ -0-
Loan recoveries	(441.9)	(20,482.5)
Guarantee claims paid	57,667.7	47,840.4
Guarantee recoveries	(13,129.5)	(27,066.2)
Insurance claims paid	96,063.0	129,349.5
Insurance recoveries	<u>(62,502.7)</u>	<u>(10,864.3)</u>
Claims Paid, net of recoveries	<u>\$82,938.3</u>	<u>\$118,776.9</u>

In February 1982, Laker Airways Limited (Laker) declared bankruptcy. At that date, Eximbank's total outstanding exposure on loans to Laker for five DC-10-30 aircraft totaled \$147.2 million (an \$86.0 million Eximbank direct loan and a \$61.2 million guaranteed loan made by the Private Export Funding Corporation (PEFCO)).

The Eximbank exposure was secured by chattel mortgages on five DC-10-30 aircraft together with the spare parts. Eximbank took possession of the aircraft and spare parts. Under the terms of its guarantee, the Bank paid PEFCO \$15.7 million (\$12.2 million principal and \$3.5 million interest) for delinquent installments. PEFCO requested acceleration of the debt under the terms of its loan and guarantee agreements. In lieu of paying PEFCO immediately for future installments under the loan, Eximbank gave PEFCO a promissory note for \$48.9 million at the same 11 percent rate with the same installment dates as carried by PEFCO's loan to Laker.

For FY 1982, the Board of Directors approved a \$50 million writedown of the assets, based on the approximate market value of the aircraft at the end of 1982. The writedown was applied proportionately between the Eximbank loan and the guarantee (\$29.2 million to the loan and \$20.8 million to the guarantee). In 1984 the five aircraft were sold for a total of \$125 million. In FY 1985 the spare parts were sold for a total of \$9.9 million. The proceeds from the sales of the aircraft and spare parts resulted in a gain of \$35.3 million over the book value. The gain was applied proportionately between the Eximbank loan and guarantee to offset a substantial portion of the write-off (\$20.6 million to the loan and \$14.7 million to the guarantee).

Subsequent to the close of FY 1985, on October 1, 1985 Eximbank settled its outstanding claims against Laker for \$8 million cash and \$17 million present

value of benefits from interest rate and other amendments on loans to British Airways for Boeing 757 aircraft.

Note 8: Borrowings from the U.S. Treasury and the Federal Financing Bank

Eximbank does not receive any appropriated funds. It has authority, under its Act, to borrow directly from the U.S. Treasury and to have outstanding at any one time up to \$6 billion of such borrowings. Eximbank avails itself of this authority for its short-term needs on a daily basis at a 91-day Treasury bill rate. Excess cash is used to reduce these borrowings also on a daily basis.

Since May 1975, Eximbank has borrowed from the Federal Financing Bank (FFB) for its medium- and long-term needs. During the period ending September 30, 1985, Eximbank borrowed the following from the FFB:

Date	Amount (\$ Millions)	Rate	Final Maturity
12/03/84	\$ 413	11.539	12/01/94
12/03/84	162	11.289	12/01/94
03/01/85	254	11.859	03/01/95
06/03/85	456	10.273	06/01/95
09/03/85	97	10.273	09/01/95
	<u>\$1,382</u>		

As of September 30, 1985, about 51 percent of the Bank's \$15,417.7 million long-term debt is due over the next five years as indicated below:

<u>Fiscal Years of Maturities</u>	<u>Amount (\$ Millions)</u>
1986	\$1,671.1
1987	1,628.5
1988	1,962.0
1989	1,094.0
1990	1,435.9

As Eximbank is usually a net borrower of funds, net short-term borrowings from the U.S. Treasury are repaid quarterly by borrowing from the FFB on a medium- and long-term basis at a U.S. Government agency borrowing rate appropriate to the term of the borrowing.

On days when Eximbank is a net investor, rather than a net borrower, of funds, those excess funds are invested in U.S. Treasury securities. Such investments earn interest at a market rate of interest determined by the Treasury.

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Note 9: Pensions and Accrued Annual Leave

Substantially all of Eximbank's employees are covered by the Civil Service Retirement System, which is currently two-tiered. For employees hired prior to January 1, 1984, Eximbank withholds approximately 7 percent of their gross earnings. Their contribution is then matched by Eximbank and the sum is transferred to the Civil Service Retirement Fund, from which this employee group will receive retirement benefits. For employees hired on or after January 1, 1984, Eximbank withholds, in addition to social security withholdings, approximately 1.3 percent of their gross earnings, but matches such withholdings with a 7 percent contribution, as above. This second employee group will receive retirement benefits from the Civil Service Retirement System along with the Social Security System, to which they concurrently contribute.

Total Eximbank (employer) matching contributions to the Civil Service Retirement System for all employees were approximately \$813 thousand for the fiscal year ended September 30, 1985.

Although Eximbank funds a portion of pension benefits under the Civil Service Retirement System relating to its employees and makes the necessary payroll withholdings from them, Eximbank does not account for the assets of the Civil Service Retirement System nor does it have actuarial data with respect to accumulated plan benefits or the unfunded pension liability relative to its employees. These amounts are reported by the Office of Personnel Management for the Retirement System and are not allocated to the individual employers.

Eximbank's liability to employees for accrued annual leave is \$911 thousand at September 30, 1985.

Note 10: Lease Commitments

The Bank has no capital leases. Operating lease arrangements are renewable annually. These leases primarily consist of rental of the office space and EDP equipment. Penalty for early cancellation is immaterial. Office space is leased from General Services Administration through the Public Building Funds. The lease expenses for FY 1985 were \$2,371 thousand and \$1,445 thousand for FY 1984.

Note 11: Adjustment for Conversion to Accrual Basis for Claim Losses

As indicated in Note 1, beginning with FY 1986, claims on guarantees and insurance policies will be accounted for on an accrual basis. As of September 30, 1985, estimates were made for claim payments and associated recoveries related to claims not filed with Eximbank, but which were anticipated to be filed and which were related to events which occurred on or before September 30, 1985 (IBNR). Estimates also were made of the payments and recoveries expected on claims filed with the Bank as of September 30, 1985, but unpaid as of that date. Finally, estimates were made of recoveries to be collected on claims which had been paid as of September 30, 1985 but which were partially or fully unrecovered as of the date.

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The effect of this adjustment on the Statement of Financial Condition is detailed below:

	(\$ Millions) <u>September 30, 1985</u>
Estimated claims incurred but not yet reported (IBNR)	\$ 58.7
Less estimated IBNR recoveries, net of related expenses	<u>(37.1)</u>
Net IBNR	\$ 21.6
Estimated future payments for claims filed	274.5
Estimated recovery expenses on all open claims	.5
Less estimated recoveries on claims filed pending future payments	(148.7)
Estimated recoveries on all claims previously paid and unrecovered, excluding amounts to be recovered previously recorded as asset purchases	<u>(192.3)</u>
Net estimated claim recoveries over estimated claim payments	<u>(66.0)</u>
Excess of estimated claim recoveries over estimated future claim payments, excluding recoveries on amounts previously recorded as asset purchases	(44.4)
Estimated claims recoveries (previously recorded as asset purchases) that:	
Have been rescheduled	\$(835.6)
Have not been rescheduled	<u>\$(148.6)</u>
Total amount of claim recoveries that were previously recorded as asset purchases	<u>\$(984.2)</u>
Total excess of estimated claim recoveries over estimated future claim payments	<u>\$(1,028.6)</u>

The above amount of \$(1,028.6) million is Eximbank's estimate as of September 30, 1985 of its net liability on an accrual basis for claims under its insurance and guarantee programs. Because of the unusually large amount of claims paid in the period 1983-1985, and since new claims filed

and unpaid as of September 30, 1985 have dropped significantly from the 1983-1985 levels, the amount of anticipated recoveries from claims paid in the past exceeds new claims to be paid as of September 30, 1985. Consequently, there is a balance of estimated claim recoveries over estimated future claim payments, which is shown as an asset on the Bank's Statement of Financial Condition.

The \$984.2 million recorded as purchased assets and included in Loans Receivable prior to September 30, 1985 has been reclassified to Estimated Recoveries and is included in the Excess of Estimated Claim Recoveries over Estimated Future Claim Payments on the Statement of Financial Condition. As shown above, these Estimated Recoveries are split into two components for accounting purposes. These separate components will be given different accounting treatment as described below.

The first component, "Estimated Claims Recoveries that have been Rescheduled," represents situations in which the Bank has negotiated new terms of repayment with the obligor through Paris Club or other major reschedulings. These "Estimated Claims Recoveries" are similar to direct credits because the current underlying repayment terms were agreed to by the Bank and the obligor. Accordingly, interest will accrue at the note rate on the same basis as Eximbank's direct credits. All obligor repayments will be applied between interest income and the Estimated Recovery balance in accordance with the new terms. Interest revenue recorded on this component during FY 1985 was \$55.3 million. As of September 30, 1985, \$31.4 million of accrued interest is outstanding and is included in the Interest Receivable total on the Statement of Financial Condition.

The second component, "Estimated Claims Recoveries that have not been Rescheduled," represents situations in which the Bank may only retain the subrogated rights of repayment assumed when the claim was paid. Since these amounts are delinquent according to their underlying repayment terms, no interest will be accrued on these amounts. Any repayments will be directly applied to the Estimated Recovery balance. In accordance with this treatment, the \$11.0 million of uncollected interest revenue recorded on these amounts was removed from FY 1985 income as a part of this adjustment.

The effect of the adjustment on the Statement of Income (Loss) is detailed below:

	(\$ Millions) <u>September 30, 1985</u>
Excess of estimated claim recoveries over estimated future claim payments, excluding recoveries on amounts previously recorded as asset purchases	\$(44.4)
Less interest accrued on asset purchases pending implementation of formal rescheduling	<u>11.0</u>
Adjustment to income (loss) for conversion to accrual basis for claim losses	<u>\$(33.4)</u>

Since it is not practicable to restate any prior year, the Bank is including the cumulative effect of the recoveries in net income for FY 1985 in accordance with generally accepted accounting principles. In the future, claim payments, recoveries, and related expenses will be re-estimated for financial statement purposes as of the financial statement date.

The \$44.4 million represents amounts previously not recorded as an asset. The reclassification of purchased assets does not have an impact on the Statement of Financial Condition.

The \$11.0 million is the removal of interest revenue on non-rescheduled estimated claim recoveries that was described above.

Finally, the adjustment impacts the presentation of the Bank's charges against statutory authority (see Note 1).

The \$984.2 million of estimated recoveries previously recorded as asset purchases and the \$192.3 million of estimated recoveries on disbursed claims not previously recorded as asset purchases represent the total of \$1,176.5 million of estimated recoveries on disbursed claims that is charged (at 100%) against the Bank's statutory authority (see Note 1). All remaining amounts above are estimates of future events; no actual disbursement or recovery of funds have occurred. The Bank's contractual liability related to these amounts is still included in the totals for outstanding insurance and guarantee contingent liability. In future years, the total estimated recoveries on disbursed claims will be disclosed in the same manner as shown above for the estimated recoveries previously recorded as asset purchases.



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